

Message Text

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SUBJECT: ESRI REPORTS CONTINUING ECONOMIC DIFFICULTIES

1. THE ECONOMIC AND SOCIAL RESEARCH INSTITUTE (ERSI - A SEMI-INDEPENDENT SOCIAL AND ECONOMIC RESEARCH INSTITUTE) HAS JUST ISSUED ITS QUARTERLY REPORT ON THE STATE OF THE IRISH ECONOMY IN WHICH IT PROJECTS A GNP GROWTH RATE OF TWO TO TWO AND A HALF PERCENT FOR 1976. THIS IS AN IMPROVEMENT OVER THE .5 PERCENT PROJECTED BY ESRI AT THE BEGINNING OF THE YEAR BUT IT IS LESS THAN 3-4 PERCENT GNP GROWTH RATE ANTICIPATED BY THE CENTRAL BANK OF IRELAND. ESRI ATTRIBUTES THE IMPROVED GROWTH FORECAST TO THREE MAIN FACTORS THAT HAVE CONTRIBUTED TO A SHARP RISE IN MANUFACTURING PRODUCTION THIS YEAR. FIRSTLY, MANUFACTURED EXPORTS ARE EXPECTED TO RISE BY 4.5 PERCENT IN REAL TERMS; SECONDLY, CONSUMER DEMAND IN 1976 WAS STRONGER THAN ANTICIPATED; THIRDLY, REBUILDING OF INVENTORIES DEPLETED DURING THE WORST PART OF THE RECESSION HAS CONTINUED.

2. ESRI ANTICIPATES A RESURGENCE OF INFLATIONARY PRESSURES DURING THE LAST QUARTER OF 1976 AND IT ESTIMATES THAT THE COST OF

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LIVING FOR THE YEAR AS A WHOLE WILL RISE BY 18 PERCENT OVER THAT

OF 1975. NON-AGRICULTURAL EMPLOYEE INCOMES ARE EXPECTED TO RISE BY 17 PERCENT THIS YEAR. ESRI BELIEVES AGRICULTURAL OUTPUT WILL FALL BY 3.25 PERCENT, BUT DUE TO SHARP INCREASES IN AGRICULTURAL PRICES, FARM INCOMES WILL INCREASE BY 21 PERCENT. SEASONALLY ADJUSTED

UNEMPLOYMENT APPEARS TO BE ON THE DECLINE AND ESRI BELIEVES IT SEES A SLIGHT IMPROVEMENT IN THE UNDERLYING TREND.

3. NOTING THAT ECONOMIC PERFORMANCE IN 1977 WILL BE STRONGLY INFLUENCED BY WAGE NEGOTIATIONS CURRENTLY UNDERWAY, ESRI DECLINED TO MAKE PROJECTIONS FOR NEXT YEAR. HOWEVER, IT REITERATED THE IMPORTANCE OF A WAGE FREEZE IF THERE IS TO BE ECONOMIC GROWTH IN THE COMING YEAR. IT ALSO CALLS FOR A DEVALUATION OF IRELAND'S GREEN POUND TO ACTUAL MARKET EXCHANGE RATES.

4. COMMENT: THE ESRI VIEW ON THE IMPORTANCE OF A WAGE FREEZE AS A CHECK ON IRELAND'S HIGH RATE OF INFLATION IS CONSISTENT WITH THAT OF OTHER ECONOMIC OBSERVERS. ON DECEMBER 1 TALKS RESUMED BETWEEN THE EMPLOYERS AND THE UNIONS ON A NATIONAL WAGE AGREEMENT. THE EMPLOYERS OFFERED A PACKAGE OF TAX CUTS (PREVIOUSLY APPROVED BY THE GOVERNMENT) ACCOMPANIED BY A MODEST PAY INCREASE DELAYED UNTIL NEXT YEAR. THIS IN FACT WOULD WOULD REPRESENT AN INCREASE IN WORKERS' TAKE HOME PAY, BUT WOULD PLACE AN ADDED BURDEN ON THE EXCHEQUER. THE UNIONS ARE TO CONSIDER THE OFFER AND TALKS ARE TO RESUME DECEMBER 3.

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